

Chapter 7

FINANCING UNEMPLOYMENT AND SICKNESS INSURANCE

Under the Railroad Unemployment Insurance Act, an employee's eligibility for benefits is based on taxable earnings in a calendar year and normally applies only to benefits in the benefit year starting the following July 1. Given this limited period of potential benefits, the financing of railroad unemployment and sickness benefits is essentially a short-term proposition in comparison to the financing of retirement benefits. An employee's eligibility for unemployment or sickness benefits ceases within two years after he or she leaves railroad work, while eligibility for railroad retirement annuities continues for decades after an employee with 10 years' service leaves the industry. Consequently, in a given series of benefit years, gradually declining rail employment is less of a factor than major recessions or work stoppages causing industry-wide unemployment on a temporary basis.

CONTRIBUTIONS

The railroad unemployment and sickness benefit programs are financed exclusively by contributions of railroad employers, based on the taxable earnings of their employees. The employees themselves do not contribute.

Experience-based tax rates were phased in during 1991. Each employer pays contributions at a rate which takes into consideration the employer's actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unem-

ployment and sickness pay contributions at a lower rate than employers with higher levels of benefit usage. Each employer's rate also has a component for administrative expenses and a component to cover costs shared by all employers.

In 1997, the basic tax rates on railroad employers range from a minimum of 0.65 percent to a maximum of 12 percent on employees' earnings up to \$890 per month. The taxable earnings base is indexed each year by approximately two-thirds of the growth in average national wages.

Surcharges of 1.5 percent or 2.5 percent are added to all employers' unemployment insurance tax rates, subject to the applicable maximum rate, during any year in which the balance in the Railroad Unemployment Insurance Account as of the close of business on the preceding June 30 is less than \$100 million but greater than zero. If the account balance is less than zero, the surcharge will be 3.5 percent. If the account balance on the preceding June 30 is above \$250 million, the excess will be refunded to the employers in the form of a rate reduction for the year through a pooled credit. Each employer's tax rate (prior to application of individual maximum and minimum limitations) will be reduced by the ratio of the excess amount to the taxable payroll of all employers.

The experience-based tax rates have a 12 percent maximum, or a 12.5 percent maximum if a 3.5 percent surcharge is in effect. Included in the rate is the basic rate, an administration tax rate of 0.65 percent, and, if either is applicable, the surcharge rate or the rate of the pooled credit. Since the basic employer tax rate plus any pooled credit cannot be less than zero, 0.65 percent is the minimum rate which any employer can pay.

RAILROAD UNEMPLOYMENT INSURANCE ACCOUNT

Railroad unemployment insurance funds not needed immediately for the payment of benefits are deposited in the Railroad Unemployment Insurance Account maintained by the Treasury. This account, together with similar accounts for each State, forms a

national unemployment trust fund. Deposits in the unemployment trust fund are invested by the Treasury in securities of the U.S. Government. Every quarter, the Railroad Unemployment Insurance Account and the Railroad Unemployment Insurance Administration Fund each receive a proportionate share of the interest earnings of the trust fund, based on average daily balances.

The Railroad Unemployment Insurance Administration Fund, separate from the Railroad Unemployment Insurance Account, pays the costs of administering the railroad unemployment insurance system. An amount equal to 0.65 percent of taxable payroll is set aside from railroad contributions for the Railroad Unemployment Insurance Administration Fund. Any amount in the Railroad Unemployment Insurance Administration Fund in excess of \$6 million (on an accrual basis) on September 30 of any year is transferred to the Railroad Unemployment Insurance Account.

Borrowing Authority

To ensure adequate funds in periods of high unemployment, Congress gave the Board authority in 1959 to borrow money from the Railroad Retirement Account for the payment of benefits from the Railroad Unemployment Insurance Account. Interest on money borrowed is paid to the Railroad Retirement Account at approximately the same rate as the Treasury pays on the investments of the Railroad Retirement Account.

FINANCIAL REPORT

The Railroad Retirement Board is required to report annually to the Congress on the financial status of the railroad unemployment insurance system. The reports must include any recommendations for financing changes which might be advisable, including any adjustment the Board recommends regarding the rates of employer contributions.

The unemployment insurance financial report submitted in June 1996 stated that experience-based contribution rates would keep the system solvent, even under the most pessimistic employment assumption.

The report noted that the average employer contribution rate remained well below the maximum throughout the projection period even under the most pessimistic assumption. In addition, the 0.65 percent of taxable payroll allocated to the Administration Fund was sufficient to finance administrative expenses under all three employment assumptions. No financing changes were recommended for the unemployment insurance system.

The railroad unemployment insurance legislation enacted in October 1996 will be reflected in the next financial report.